

Message

From: Karen Aviram Beatty [REDACTED]@google.com]
Sent: 11/27/2019 7:37:55 PM
To: Ryan Wyatt [REDACTED]@google.com]
CC: Purnima Kochikar [REDACTED]@google.com]; Lawrence Koh [REDACTED]@google.com]
Subject: Re: ABK update - Armin mtg 11/26

super helpful feedback. Marc and I are pulling together a draft of what would make sense for YT (eg \$7-10M/year) and under what conditions (non-exclusive, no 3rd year if #s drop). And what other options we should discuss (eg ad credits contingent on co-investment, etc). And how big a "gap" that leaves vs ABK ask. I think the market precedent is an important variable we need to highlight in BC (since that makes it much more risky due to potential downstream \$ impact into other deals).

Karen Aviram Beatty | Managing Director, Global Partnerships | [REDACTED]@google.com | Direct: [REDACTED]
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On Wed, Nov 27, 2019 at 1:40 AM Ryan Wyatt <[REDACTED]@google.com> wrote:
 100%. And it's not that it's not valuable to YT. The content would be incredibly valuable, but just not at that price point that would cause market disruption.

I think we should rebuttal with a much smaller fee for non-exclusive multi platform distribution, but have Google Games be a significant sponsor in their leagues. It would allow us to drastically reduce the annual price point to \$7-10M/year, would be more in line with LoL's current payment structure, and would be much more tolerable to commit long term to under. All of this would be very valuable to YT and Google xPA's in Gaming, and would decrease tensions between the two groups (ABK & YT), which would significantly help YouTube with Bobby pushing for companies to claim and partake in YT's Games revenue.

Having said that, Google would have to have rights to terminate the option in the third year (2022) if average watchtime / broadcast hour fell below 2020 numbers in year 2 (2021). I think we'd want to distance ourselves if the property continued to depreciate into year 3.

On Tue, Nov 26, 2019 at 10:26 PM Purnima Kochikar [REDACTED]@google.com> wrote:
 Ryan - thanks for always being the voice of reason. I was remiss in leaving out the salient point that the deal needs to make sense for YT.

The core design principle for Hug service packs is that they need to be valuable for the respective PA first and foremost. The credits are designed to unlock PA value through xPA engagement and funding, in some cases.

Please help us design a service pack that you would be valuable to YT, but is not funded due to competing priorities.

Our goal here is not to agree to everything Armin asks for, but to find something that is valuable to both companies.

An option would be to design the service pack along the lines of Ads Credits, and make our offer contingent on co-investment.

P

EXHIBIT 148

On Tue, Nov 26, 2019, 10:11 PM Ryan Wyatt <[REDACTED]@google.com> wrote:

- smaller group

Lawrence, I'm happy to jump on a call early evening tomorrow when I land. Re: Purnima's points, we could commit to Account Linking H2 2020, and I believe we're addressing all of the product gaps that Hug partners are calling out — at least for the most part. It would be good to align exactly what that list is, and then we can pair a product roadmap to it.

It's worth noting they don't generate \$20M a year for YouTube, and the math *is* fuzzy.

As much as I appreciate Google broadly subsidizing this YT content acquisition, I have to say this commitment to 3-years for their Esports is not something I'd ever do in isolation. It's a depreciating asset, with exponential annual costs. The precedent we are setting in market for these media rights will have a negative ripple effect throughout esports. Understand that Riot will have these expectations in their 2021 media deal renewal, and that this payment will get back to them. They will be able to argue their property is more valuable, and it is, and it could have serious cost implications for us.

Just something for this group to consider when we directly attribute \$20M a year specifically to this initiative... Lawrence, I'm mostly offline so text me when you can chat [REDACTED]

- Ryan

On Tue, Nov 26, 2019 at 3:51 PM Purnima Kochikar <[REDACTED]@google.com> wrote:

Hi Karen,

Thanks for the detailed update. This is progress!

A couple of quick responses/caveats and a question for Don

UA credit - as long as the terms stay the same, we can find the extra \$10M this year. We will need to get BC approval for the two additional years. (I am assuming Armin understands that credits are earned, and the he is signing up to spend \$30M extra for the additional \$10M in credits in 2020. King is not able to keep their end of the bargain at this time).

GCP - @Sunil Rayan can you find the extra 0.5% through GCP discounts, migration incentives etc? (I will also sync up with Play Leads and Play Finance on this)

YT - Sameer is open to the idea of using GCP like approach to YT credits/eSports sponsorship, if we tie the funding to Play performance. I would also like to see YT commitment for Account Linking, and addressing some of tg product gaps that Hug Partners have brought up, to be able to make this truly accretive in the longer run. (@Lawrence Koh @Ryan Wyatt would you please run point in this. Lawrence, please sync up with Samer. He did a lot of the ground work for GCP credits).

Question for Don - would you like for us to work to figure out how we get this deal done or would you also like to talk to Bobby about how this puts us at a disadvantage with Apple (as we did with the Tencent leadership)? As Steven Ma mentioned that are discussing all this as a "family".

P

On Tue, Nov 26, 2019, 3:23 PM Karen Aviram Beatty <[REDACTED]@google.com> wrote:

Hi team,

I just spoke with Armin. He didn't send me a term sheet in writing (as he said he would), but he did just walk me through their counter-proposal over the phone.

Tldr: ABK wants a 3 year deal and \$100M in credits (with some fuzzy math in there regarding eSports). They would like to move quickly and there is pressure (on both ends) to secure these funds/this deal before the holidays. Armin reviewed this proposal with Bobby (who blessed it) as well. Meeting internally with finance and xPA teams next week to discuss strategy and prep for BC review (Dec date TBD).

Overall feedback:

- Armin tried to stick with the structure we have been proposing to them, which I did appreciate.
- They want ~\$100M credits per year, for 3 years.
- Armin's proposal is based on \$1B run rate in gross sales right now; and 2020 is projected at \$1.1B (which is how he got to the \$100M-\$110M total credit number they are seeking in order to do a deal).

Stadia

- ABK wants to talk about Stadia only after this x-PA deal framework has been agreed upon
- i.e. they don't see e.g. Stadia NRE credits (or other support) counting towards their \$100M number

Play: \$20M

- ABK wants \$20M in UA credits (vs the \$10M we offered them)

Ads: \$35M

- ABK wants \$35M in ad credits for a \$115M DVIP deal across A+B+K.
- They calculated this using 30% of the DVIP commit in credits.
- They are open to increasing the DVIP commit each year, for more credits respectively (using that 30% ratio)

Cloud: \$25M or 2.5% of play spend in credits

- ABK wants 2.5% of play spend in credits (vs the 2% we offered them)
 - e.g. This could be equivalent to \$25M in credits (vs the \$20M we offered them)
- ABK Cloud commit = \$120M over 3 years. (Although Armin hinted there is room here, and could potentially stretch to \$150M over 3 years.)
 - Cloud commit conditional: on competitive pricing, service level, help with integration (i.e. same items mentioned on our last call)

YouTube: ~\$20M (although "fuzzy" math to me on this one...here goes:)

- ABK wants YT to purchase exclusive rights (excluding China) to the total eSports portfolio. This includes: Overwatch League, Call of Duty League, and the rest of the eSports portfolio (Hearthstone, World of Warcraft leagues, etc).
- They want this on a "2 + 1" year basis i.e. we pay for 2 years and they have the option to extend for the 3rd year. The payment structure is as follows:
 - **\$50M** for Year 1
 - **\$60M** for Year 2
 - *Option for Year 3, likely around \$70M*
- From these payments, we "deduct" the following (per year):

- **\$20M** in revenue that YT generates from their content
- **\$10M** in sponsorship integrations, e.g. Tmobile, Coca-Cola ad spend on YT
- ABK sees this as: $\$50M - \$20M - \$10M = \$20M$ that Google pays (for Year 1)

>> **This totals: \$100M in total credits across the PAs.**

If anyone is around tomorrow, please let me know - I am in the office and happy to discuss. Otherwise, we'll meet early next week.

In the meantime, let's continue to think about BC positioning. I really like the last idea we discussed, focused around offering two options:

- 1) specific \$ credits per PA (as exists in our current construct)
- 2) moving **all** the credits to % of play spend. If ABK is right with their projections, the credits should be in line with their ask of \$100M. If we are correct (and revenue will not be \$1B+), then we would pay out less in credits.

For example: We pay as a percentage of Play spend: 2-3% in eSports sponsorships, 2-2.5% in Cloud credits, 1-2% in Play co-marketing credits, and 3-4% in Ads credits. You get the idea, but it should add up to 10% ideally.

Looking forward to discussing.

Please let me know if you have any questions.

Thanks,
Karen

Karen Aviram Beatty	Managing Director, Global Partnerships
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On Wed, Nov 20, 2019 at 11:42 PM Karen Aviram Beatty [REDACTED]@google.com> wrote:

Hi team,

Here is an update from my call with Armin today.

Tldr: Overall a positive call in terms of relationship and tone. Consistent messaging we've heard from him before. He is going to take our latest proposal, plus conversations we had today (details below) and send us a term sheet early next week.

Overall xPA deal feedback:

- Armin said that any deal construct that doesn't get them to a 20% Play rev share won't work for them.
- I told Armin that 20% (of X) was a moving target, since Play revenues are variable with the new launches etc. Armin calculated that the 20% (vs 30%) rev share was equivalent to about \$100m-\$110m (i.e. what we've have to make up in credits)
- His estimates are based on X = \$1.1b - \$1.2b in Play revenue in 2020

YouTube:

- Armin wasn't too interested in the eSports event we offered to host in APAC. He'd rather the funds are provided in ad credits instead.
- ABK is not going to sell the rights (even if non-exclusive) for only \$2.5m (per Armin)

- He reiterated again that Bobby wants a win here
- Armin was VERY interested in Google buying exclusive rights to Overwatch League, Call of Duty World League, other content. However when I asked him how much it would cost, he asked if I was "sitting down" :). And said:
 - Overwatch League = \$50m
 - Call of Duty League = \$20m
 - rest of content = \$10m

- I responded that I would relay this information back to the teams, but that it was unlikely we would pay that much. He wasn't surprised and said he heard the same from a number of our execs (Robert/Susan...)
- Armin DID ask that I come back with feedback on these numbers though and ideally share what we *would* pay for these exclusive rights.

Timing / Cloud

- Armin again reiterated that they want to conclude deal terms and chose a partner before the holidays.
- When I responded that the Cloud team will need at least 60 days to pull together their deal, he understood and committed to the following:
 - IF (1) Cloud pricing is competitive (equal or lower vs other offers) and (2) our Cloud tech can be implemented without negatively impacting their consumer experiences, AND (3) Google provides resources to help with the transition, THEN ABK would be willing to put a Cloud commitment into the term sheet.
- Armin said that they were talking to two other Cloud companies as well.

Stadia

- Armin said that Friday was a great meeting - very well received (nice job, Shanna and team!)
- ABK is working to turn around a term sheet back to the Stadia team
- Armin said that Stadia only makes sense for ABK if they get the bigger xPA deal (Armin said they won't partner with Stadia otherwise)

IN SUMMARY:

- We offered \$72m in credits. Armin says they need at least \$100m in credits.
- He thinks we could potentially make up the difference with YT esports licencing.
- They are optimistic about the Cloud opportunity
- They are less interested in a Stadia partnership if we don't do the holistic deal

NEXT STEPS:

- **Based on our discussion, Armin agreed to get back to me with a specific term sheet proposal on Monday/Tues next week.** (He will pull together their deal term sheet this week and has time to review with Bobby on Sunday this weekend.)
- **Armin asked that I provide one more piece of input by the end of the week: What would Google be willing to pay for Exclusive Rights to Overwatch League and Call of Duty World League?** (Lawrence/Marc - I have some thoughts here and will grab time to discuss)

Let me know if you have any questions! Will of course forward along the term sheet when I hear back from Armin early next week as well.

Karen

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